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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Telecom Corporation Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is solely for the purpose of providing shareholders with certain information in connection with an extraordinary general meeting of the Company and is not an offer to sell or a solicitation of an offer to buy any securities. Any sale of the Company's securities in the United States will be made only by means of a prospectus relating to such securities.

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**China Telecom Corporation Limited**

**中国电信股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS,  
PROPOSED ELECTION OF DIRECTORS AND SUPERVISOR  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



**SOMERLEY CAPITAL LIMITED**

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A letter from the Board is set out on pages 5 to 17 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 37 of this circular.

A notice dated 10 September 2018 convening an Extraordinary General Meeting of the Company to be held at 31 Jinrong Street, Xicheng District, Beijing, PRC on 26 October 2018 at 9:00 a.m. is set out on pages 41 to 43 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 24 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

10 September 2018

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms and expressions have the following meanings:*

“Agreements”	the Ancillary Telecommunications Services Framework Agreement and the Engineering Framework Agreement
“Ancillary Telecommunications Services Framework Agreement”	the Ancillary Telecommunications Services Framework Agreement between the Company and China Telecommunications Corporation, as amended by its supplemental agreements from time to time and as renewed on 20 August 2018 with its term from 1 January 2019 to 31 December 2021
“Annual Caps”	the maximum aggregate annual values
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China (excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region, and Taiwan)
“China Telecommunications Corporation”	China Telecommunications Corporation (中國電信集團有限公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company. Its principal business is investment holding of companies which are primarily involved in the provision of telecommunications services in the PRC, the provision of specialised telecommunication support services and other businesses
“Company”	China Telecom Corporation Limited (中國電信股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, with its H shares and ADSs listed on the Stock Exchange and the New York Stock Exchange, respectively and whose principal business is the provision of fundamental telecommunications services including comprehensive wireline telecommunications services, mobile telecommunications services, value-added services such as Internet access services, information services and other related services
“connected person”	has the meaning ascribed to it in the Listing Rules

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## DEFINITIONS

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“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened on 26 October 2018, the notice of which is set out in this circular, or any adjournment thereof
“Engineering Framework Agreement”	the Engineering Framework Agreement between the Company and China Telecommunications Corporation, as amended by its supplemental agreements from time to time and as renewed on 20 August 2018 with its term from 1 January 2019 to 31 December 2021
“Group”	the Company and its subsidiaries
“H Shares”	the ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00, which are subscribed for and paid up in a currency other than Renminbi and are listed on the Stock Exchange
“HK\$” or “HKD”	Hong Kong Dollars, the lawful currency of Hong Kong. For reference only, the amounts in Hong Kong Dollars set out in this circular are translated from Renminbi at HK\$1.00 = RMB0.8672. Such translation should not be construed as representations that the amounts in one currency actually represent, or could be converted into, the amounts in another currency at the rate indicated, or at all
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee, comprising all of the independent non-executive Directors of the Company, namely Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming and Madam Wang Hsuehming, formed to advise the Independent Shareholders in respect of, among others, the renewal of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement

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## DEFINITIONS

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“Independent Financial Adviser” or “Sommerley”	Sommerley Capital Limited, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of, among others, the renewal of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement
“Independent Shareholders”	shareholders of the Company other than China Telecommunications Corporation and its associates
“Independent Third Party”	an entity which is independent of and not connected to the Company or its connected persons, and which is not a connected person of the Company
“Latest Practicable Date”	6 September 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Renewed Annual Caps”	the renewed Annual Caps for the Continuing Connected Transactions contemplated under the Agreements for the three years ending 31 December 2019, 2020 and 2021
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisors”	the supervisors of the Company
“Supervisory Committee”	the supervisory committee of the Company

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## DEFINITIONS

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### **FORWARD-LOOKING STATEMENTS**

*Certain statements contained in this circular may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.*



**China Telecom Corporation Limited**

**中国电信股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

*Executive Directors:*

Yang Jie  
Ke Ruiwen  
Gao Tongqing  
Chen Zhongyue

*Registered office:*

31 Jinrong Street  
Xicheng District  
Beijing 100033, PRC

*Non-Executive Director:*

Chen Shengguang

*Place of business in Hong Kong:*

38th Floor  
Everbright Centre  
108 Gloucester Road  
Wanchai, Hong Kong

*Independent Non-Executive Directors:*

Tse Hau Yin, Aloysius  
Xu Erming  
Wang Hsuehming

10 September 2018

*To the Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS,  
PROPOSED ELECTION OF DIRECTORS AND SUPERVISOR  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

We refer to the announcement of the Company dated 20 August 2018, in which the Board announced that the Company and China Telecommunications Corporation have entered into supplemental agreements on 20 August 2018 and renewed the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for a further term of three years from 1 January 2019 to 31 December 2021, subject to the requisite approval of the Independent Shareholders being obtained. The pricing terms of the Agreements are set out in this letter.

The Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2018 under their current terms.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, China Telecommunications Corporation is the Company's controlling shareholder and holds approximately 70.89% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a connected person of the Company pursuant to Chapter 14A of the Listing Rules and the transactions contemplated under the Agreements constitute Continuing Connected Transactions of the Company.

As certain applicable percentage ratios (excluding the profits ratio) of the Renewed Annual Caps for the transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for each of the years ending 31 December 2019, 2020 and 2021 are expected to exceed 5%, such Continuing Connected Transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the renewal of the Continuing Connected Transactions and the Renewed Annual Caps applicable thereto. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Continuing Connected Transactions and the Renewed Annual Caps applicable thereto.

The purpose of this circular is to provide you with information regarding the resolutions to be approved at the EGM, including, among other things, further particulars of:

- (i) details of the renewal of the Continuing Connected Transactions and the Renewed Annual Caps applicable thereto;
- (ii) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders;
- (iii) the letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders;
- (iv) details of the proposed election of Directors;
- (v) details of the proposed election of Supervisor; and
- (vi) the notice of the EGM.

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

On 20 August 2018, the Board approved, among other things, (i) the continuing connected transactions contemplated under the Engineering Framework Agreement and the Renewed Annual Caps applicable thereto; and (ii) the continuing connected transactions contemplated under the Ancillary Telecommunications Services Framework Agreement and the Renewed Annual Caps applicable thereto.



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## LETTER FROM THE BOARD

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### **Engineering Framework Agreement**

The Engineering Framework Agreement will expire on 31 December 2018. The Company and China Telecommunications Corporation have entered into a supplemental agreement on 20 August 2018 and renewed the Engineering Framework Agreement on the same terms (except the pricing terms) for a further term of three years from 1 January 2019 to 31 December 2021. No later than 30 days prior to the expiry of the Engineering Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Engineering Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Pursuant to the Engineering Framework Agreement as amended by the supplemental agreement dated 20 August 2018, China Telecommunications Corporation and/or its associates through bids provide to the Group services such as construction, design, equipment installation and testing and/or engineering project supervision services. The charges payable for such engineering services shall be determined by reference to market rates. Market rates shall mean the rates at which the same or similar type of products or services are provided by Independent Third Parties in the ordinary course of business and on normal commercial terms. When determining whether the transaction price for any transaction under the Agreement represents market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by Independent Third Parties in the ordinary course of business over the corresponding period for reference. According to applicable laws, the charges payable for the design or supervision of engineering projects with a value of over RMB1,000,000 (equivalent to approximately HK\$1,153,137) or engineering construction projects with a value of over RMB4,000,000 (equivalent to approximately HK\$4,612,546) shall be the tender award price, which is determined in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC” or the final confirmed price in the relevant tender process. The Group shall solicit at least three tenderers for the tender process. In the circumstances there are amended rules or regulations in respect of tender scope and scale of the engineering construction projects promulgated by PRC laws and regulations, both parties agreed to apply such amended rules and regulations and no amendment to the supplemental agreement is required.

The Group does not accord any priority to China Telecommunications Corporation and/or its associates to provide such services, and the tender may be awarded to an Independent Third Party. However, if the terms of an offer from China Telecommunications Corporation and/or its associates are at least as favourable as those offered by other tenderers, the Group may award the tender to China Telecommunications Corporation and/or its associates.

During the current term of the Engineering Framework Agreement from 1 January 2016 to the date of this circular, the Company has engaged Independent Third Parties to provide services mentioned in the Engineering Framework Agreement and thereby, has been able to obtain information on the rates charged by Independent Third Parties for similar and comparable transactions. For the sake of prudence and enhanced corporate governance, the Group would generally obtain information on the market rates by selecting services providers for most of the services mentioned in the Engineering Framework Agreement through tender processes which were in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC”. During the current term of the Engineering Framework Agreement

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from 1 January 2016 to the date of this circular, the Company had rarely encountered situations where fewer than three tenderers were solicited, in light of the considerable number of market participants providing the relevant services. In the event that fewer than three tenderers are solicited, the Group would adopt corresponding measures strictly in accordance with the nation's relevant laws and regulatory requirements and internal control procedures as appropriate in light of the circumstances, and to conduct a further tender process after analysing the reasons for the unsuccessful tender in accordance with laws and if fewer than three tenderers are solicited even after the further tender, after obtaining approval pursuant to the Company's internal control management requirements, to adopt open evaluation of two qualified tenderers or to end the tender process, or to adopt other methodologies to conduct relevant procurements. The Group has adopted internal management measures on tender processes which are commensurate with the "Bidding Law of the PRC" and the "Regulations on the Implementation of the Bidding Law of the PRC", and has adopted the relevant management measures including the "China Telecom Group Management Measures on Procurement" and the "China Telecom Group Management Measures on Procurement, Invitation for Tenders and Placing of Tenders". The procurement management department and the internal audit department of the Company are responsible for monitoring whether such internal measures have been adhered to in the tender processes.

### **Ancillary Telecommunications Services Framework Agreement**

Pursuant to the Ancillary Telecommunications Services Framework Agreement, China Telecommunications Corporation and/or its associates provide the Group with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services. The charges payable for the services under the Ancillary Telecommunications Services Framework Agreement are calculated on the following basis:

- (1) market prices, which shall mean the prices at which the same or similar type of products or services are provided by Independent Third Parties in the ordinary course of business and on normal commercial terms. When determining whether the transaction price for any transaction under the Agreement represents market prices, to the extent practicable, management of the Company shall take into account the prices of at least two similar and comparable transactions entered into with or carried out by Independent Third Parties in the ordinary course of business over the corresponding period for reference;
- (2) where there is no or it is not possible to determine the market prices, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. For this purpose, "reasonable profit margin" is to be fairly determined by negotiations between the parties in accordance with the internal policies of the Group. When determining the "reasonable profit margin" for any transaction under the Agreement, to the extent practicable, management of the Company shall take into account the profit margin of at least two similar and comparable transactions entered into with Independent Third Parties in the corresponding period or the relevant industry profit margin for reference.

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## LETTER FROM THE BOARD

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During the current term of the Ancillary Telecommunications Services Framework Agreement from 1 January 2016 to the date of this circular, the Company has engaged Independent Third Parties to provide services mentioned in the Ancillary Telecommunications Services Framework Agreement and thereby, has been able to obtain information on the rates charged by Independent Third Parties for similar and comparable services. In determining the market prices by identifying at least two similar and comparable transactions, depending on the potential transaction values, the Company would either initiate a tender process in accordance with the internal management measures on procurement and tender processes which are commensurate with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC” or through open procurement of not less than two prices of similar and comparable transactions by Independent Third Parties for comparative selection, price enquiries or competitive negotiation. In conducting open procurement, and where it is not practicable to use the above methods to ascertain the market rates, the Company would consider for reference the prices determined by public tender processes for similar recent transactions in other comparable geographical areas, the prices determined by public tender processes for past similar transactions in the same geographical areas, as well as the prices determined by public tender processes for both recent and past similar transactions of other companies in the same geographical areas in order to ensure that the market rates are used for the continuing connected transactions. Where it is not practicable to consider the profit margins of two similar and comparable transactions with Independent Third Parties, and a reasonable profit margin has to be determined, the Company would normally consider for reference the recent profit margins of enterprises engaging in providing similar services in other industries. During the current term of the Ancillary Telecommunications Services Framework Agreement from 1 January 2016 to the date of this circular, in light of the considerable number of market participants providing the relevant services, the Company had rarely encountered situations where it had to determine the “reasonable profit margin” in the abovementioned ways, and did not encounter significant difficulty when practically implementing the methodologies for determining market rates.

The Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2018. The Company and China Telecommunications Corporation have entered into a supplemental agreement on 20 August 2018 and renewed the Ancillary Telecommunications Services Framework Agreement in accordance with its provisions for a further term of three years from 1 January 2019 to 31 December 2021. No later than 30 days prior to the expiry of the Ancillary Telecommunications Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Ancillary Telecommunications Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### **Reasons for and Benefits of the Transactions Contemplated under the Agreements**

The historical unique relationship and long-term cooperation between China Telecommunications Corporation and/or its associates and the Group has enabled China Telecommunications Corporation and/or its associates to gain a comprehensive and deep understanding of the Group’s network features and general business needs. Compared to third

## LETTER FROM THE BOARD

parties, China Telecommunications Corporation and/or its associates can more aptly ensure that high quality service is provided at a competitive price, thus lowering service costs. The Group will receive high quality service and can effectively lower its operational expenses.

Due to a long-standing and cooperative relationship in the past, China Telecommunications Corporation and/or its associates are more able to meet the needs of the Group and to provide responsive support services in a speedy and stable manner, thereby achieving effective business cooperation and synergies. China Telecommunications Corporation and/or its associates have, for a long time, set up specialised teams dedicated to serving the Group, and made proactive initiatives and technical preparations customised for the development of the Group, with a view to providing the Group with more systematic and efficient services.

### THE RENEWED ANNUAL CAPS

Under Rules 14A.53 and 14A.68(4) of the Listing Rules, in respect of a continuing connected transaction which is not fully exempted, a cap must be set and disclosed. The historical amounts, the Annual Caps for the year ending 31 December 2018 and the Renewed Annual Caps for the three years ending 31 December 2019, 2020 and 2021 for each of the transactions contemplated under the Agreements are set out below:

	Audited historical amount for the year ended 31 December 2016	Audited historical amount for the year ended 31 December 2017	Unaudited historical amount for the period from 1 January to 30 June 2018	Annual Caps for the year ending 31 December 2018	Renewed Annual Caps for the year ending 31 December 2019	Renewed Annual Caps for the year ending 31 December 2020	Renewed Annual Caps for the year ending 31 December 2021
Agreements							
Engineering Framework Agreement	RMB18,936 million (equivalent to HKD21,836 million)	RMB18,672 million (equivalent to HKD21,531 million)	RMB7,544 million (equivalent to HKD8,699 million)	RMB19,500 million (equivalent to HKD22,486 million)	RMB23,000 million (equivalent to HKD26,522 million)	RMB30,000 million (equivalent to HKD34,594 million)	RMB32,000 million (equivalent to HKD36,900 million)
Ancillary Telecommunications Services Framework Agreement	RMB13,938 million (equivalent to HKD16,072 million)	RMB16,072 million (equivalent to HKD18,533 million)	RMB7,461 million (equivalent to HKD8,604 million)	RMB17,000 million (equivalent to HKD19,603 million)	RMB22,000 million (equivalent to HKD25,369 million)	RMB24,000 million (equivalent to HKD27,675 million)	RMB26,500 million (equivalent to HKD30,558 million)

As far as the Directors are aware, none of the Annual Caps of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for the year ending 31 December 2018 has been exceeded as at the Latest Practicable Date. Each of the Annual Caps of the Agreements for the three years ending 31 December 2019, 2020 and 2021 have been determined by reference to the nature of the transactions contemplated under the respective Agreements, the existing scale and operations of the Company's business, the business plan of the Company and the inflationary pressures for the three years ending 31 December 2019, 2020 and 2021.

The increase in the Annual Caps for the three years ending 31 December 2019, 2020 and 2021 in relation to the Engineering Framework Agreement is mainly attributable to the impact of the scale and structure of capital expenditure of the Company. As the coming two to three years will be an important stage of network intelligentisation reforms and upgrade as well as 5G development, the Company is required to maintain requisite capital expenditure. In addition, as a result of the continuous improvement of the capability of offering engineering design and installation services, China Telecommunications Corporation and/or its associates will have more competitive advantages than third-party vendors which will enable them to fulfill the needs for the Company's future developments. Therefore, it is anticipated that the Company's demand for engineering services will

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## LETTER FROM THE BOARD

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increase. Meanwhile, the year 2020 is expected to be the development phase of 5G commercial use after completion of relevant preparation work. Accordingly, the 2020 Annual Cap will have a relatively substantial increase as compared to the 2019 Annual Cap.

The increase in the Annual Caps for the three years ending 31 December 2019, 2020 and 2021 in relation to the Ancillary Telecommunications Services Framework Agreement is mainly attributable to the gradual expansion of subscribers scale, business volume and network scale of the Company year on year. It is anticipated that the demand for the services for corporate development, customers retention, outsourced network repairs, installation and relocation of equipment will continue to increase. In addition, as a result of the continuous improvement of the capability of offering ancillary telecommunications services, China Telecommunications Corporation and/or its associates will have more competitive advantages than the third-party vendors which will enable them to fulfill the needs for the Company's future developments. Therefore, it is anticipated that the Company's demand for ancillary telecommunications services will increase. The relatively substantial increase in the 2019 Annual Cap as compared to the 2018 Annual Cap is mainly due to (a) the trend of increasing number of subscribers of various services of the Company including mobile services, e-Surfing HD and Internet of Things (IoT) as disclosed in the 2018 Interim Results Announcement of the Company, and the corresponding increase in demand for the relevant repairs, maintenance and customer services; and (b) the management having considered the historical utilisation rates of the Annual Caps in determining the Renewed Annual Caps. In light of the relatively high utilisation rates of the Annual Caps for the past years under the Ancillary Telecommunication Services Framework Agreement, the management has allowed a reasonable buffer for the Renewed Annual Caps in order to enable the Company to react to unforeseen circumstances in a flexible manner.

The consideration under each of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement will be satisfied in cash and no payment will be made on a deferred basis.

### **INTERNAL CONTROL**

The Company has formulated and strictly implemented various systems including the *Administrative Measures of Connected Transactions of China Telecom Corporation Limited*, the *Working Guidance of Connected Transactions of China Telecom Corporation Limited* and the *Internal Control Manual of China Telecom Corporation Limited* to ensure that connected transactions are entered into in accordance with pricing mechanisms and transactions models that are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

The relevant business departments and connected persons negotiate the pricing terms of the continuing connected transactions. These pricing terms shall be determined in accordance with the pricing policies principles as set out in the agreements of continuing connected transactions, which should be fair and reasonable and subject to the review of the finance department.

The legal department regularly analyses and oversees the execution of connected transactions to ensure that they are implemented in accordance with the connected transactions agreements. The finance department initiates the daily management of connected transactions, including cooperating with the relevant business departments for account reconciliation with connected parties, regularly

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## LETTER FROM THE BOARD

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analysing the implementation of connected transactions together with business departments and performing supervisory examination. The finance department regularly reports the status of the implementation of connected transactions to the Audit Committee. The audit department incorporates connected transactions into the scope of annual internal control assessment and reports the results to the management.

The auditors of the Company review the respective continuing connected transactions of the Company and confirm to the Board that the transactions have received the approval by the Board on an annual basis; the transactions have been entered into in accordance with the pricing policies as set out in the relevant agreements governing such transactions; and the transactions have been performed in accordance with the terms of the relevant agreements governing such transactions. Meanwhile, the auditors of the Company would confirm that the annual caps applicable to the respective continuing connected transactions entered into between the Company and its connected persons have not been exceeded.

The independent non-executive Directors of the Company would conduct annual review on the continuing connected transactions and confirm that the transactions have been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of business; the transactions are on normal commercial terms or better; or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or (if applicable) from Independent Third Parties; and have been entered into in accordance with the relevant terms that are fair and reasonable and in the overall interests of the shareholders of the Company as a whole.

The Board oversees the Company's risk management and internal control systems, including internal control systems of connected transactions on an ongoing basis and the Board, through the Audit Committee, conducts an annual review of the risk management and internal control systems of the Company for each financial year. After receiving the reports from the Internal Audit Department and the confirmation from the management to the Board on the effectiveness of these systems, the Board would confirm that the Company's risk management and internal control systems are solid, well-established, effective and sufficient.

### **LISTING RULES IMPLICATIONS**

The Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement were entered into between the Company and China Telecommunications Corporation. As at the Latest Practicable Date, China Telecommunications Corporation is the Company's controlling shareholder and holds approximately 70.89% of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a connected person of the Company pursuant to Chapter 14A of the Listing Rules and the transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement constitute Continuing Connected Transactions of the Company.

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## LETTER FROM THE BOARD

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As certain applicable percentage ratios (excluding the profits ratio) of the Renewed Annual Caps for the transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for each of the years ending 31 December 2019, 2020 and 2021 are expected to exceed 5%, such Continuing Connected Transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement will be disclosed in the Company's next published annual report and accounts, as required under Rules 14A.71 and 14A.72 of the Listing Rules.

### RECOMMENDATION

The Independent Board Committee, comprising all of the independent non-executive Directors of the Company, namely Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming and Madam Wang Hsuehming, has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 18 to 19 of this circular.

The Company has appointed Somerley to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Continuing Connected Transactions. A letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 37 of this circular.

The Board has passed resolutions to approve, among others, the renewal of the Agreements of Continuing Connected Transactions. Save for Mr. Yang Jie, who also serves as the Chairman of China Telecommunications Corporation and has therefore abstained from voting on the relevant board resolutions in respect of, among others, the renewal of the Agreements, none of the Directors had a material interest in the transactions contemplated under the Agreements and no Director was required to abstain from voting on the relevant board resolutions to approve the renewal of the Agreements.

The Board (excluding the members of the Independent Board Committee, the opinion of which, after taking into account the advice from the Independent Financial Adviser, is included in the section headed "Letter from the Independent Board Committee" in this circular) is of the view that the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement, and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group, that they are on normal commercial terms or better, that they have been implemented in accordance with the terms contained therein, and that the terms, as well as the Renewed Annual Caps applicable thereto, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolutions at the EGM in respect of, among others, the renewal of the Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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### PROPOSED ELECTION OF DIRECTORS

Reference is made to the announcement of the Company dated 20 July 2018 in relation to the appointment and change of important executive positions and proposed appointment of Directors. The Board has proposed to appoint Madam Zhu Min (“**Madam Zhu**”) and Mr. Yeung Chi Wai, Jason (“**Mr. Yeung**”) as an Executive Director and Independent Non-Executive Director of the Company, respectively and ordinary resolutions will be proposed to the Shareholders at the EGM for their consideration and approval.

The biographical details of the proposed Directors are set out below:

**Madam Zhu Min**, age 53, is an Executive Vice President, the Chief Financial Officer and Secretary of the Board of the Company. Madam Zhu is a senior accountant. She received a master degree in system engineering from the Faculty of Management Engineering at the Beijing Institute of Posts and Telecommunications and a doctorate degree in business administration from the Hong Kong Polytechnic University. Madam Zhu served as Managing Director of Finance Department of China Telecom (Hong Kong) Limited, Managing Director of Finance Department of China Mobile (Hong Kong) Group Limited, Deputy Chief Financial Officer and Managing Director of Finance Department of China Mobile Limited, Director General of Finance Department of China Mobile Communications Corporation, Deputy Chief Accountant and Director General of Finance Department of China Mobile Communications Group Co., Ltd. and Director of Shanghai Pudong Development Bank Co., Ltd.. She is currently the Chief Accountant of China Telecommunications Corporation. Madam Zhu has extensive experience in finance, management and the telecommunications industry.

**Mr. Yeung Chi Wai, Jason**, age 63, is currently the Group Chief Compliance and Risk Management Officer of Fung Holdings (1937) Limited and its listed companies in Hong Kong, an Independent Non-Executive Director of Bank of Communications Co., Ltd. and a member of Hospital Authority Board of Hong Kong. He served as an Independent Non-Executive Director of AviChina Industry & Technology Company Limited. Mr. Yeung has extensive experience in handling legal, compliance and regulatory matters and previously worked in the Securities and Futures Commission of Hong Kong, law firms and enterprises practising corporate, commercial and securities laws. Mr. Yeung served as a Director and the General Counsel of China Everbright Limited and was also a partner of Woo, Kwan, Lee, & Lo. He acted as the Board Secretary of BOC Hong Kong (Holdings) Limited from 2001 to 2011 and concurrently acted as the Board Secretary of Bank of China Limited from 2005 to 2008. He also served as the Deputy Chief Executive (Personal Banking) of Bank of China (Hong Kong) Limited from April 2011 to February 2015. Mr. Yeung received a bachelor degree in social sciences from the University of Hong Kong. He then graduated from The College of Law, United Kingdom and received a bachelor degree in law and a master degree in business administration from the University of Western Ontario, Canada.

Mr. Yeung, the Nominee for Independent Director, has confirmed to the Company that he is in compliance with the requirements of independence pursuant to Rule 3.13 of the Listing Rules. The Company has conducted assessment on his independence, and is of the view that he complies with



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## LETTER FROM THE BOARD

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the guidelines on independence as set out in Rule 3.13 of the Listing Rules and that he is considered as independent in accordance with the provisions of the guidelines. The Nomination Committee and the Board of the Company are of the view that by virtue of his extensive experience in handling legal, compliance and regulatory matters, as well as the profound knowledge in relevant laws and regulations, the election of the Nominee for Independent Director, Mr. Yeung to be the Independent Director of the Company can enhance the level of management of the Company, while promoting the independence and objectiveness in decision-making of the Board and the comprehensive and impartial supervision of the management of the Company in accordance with the interests of the Company and the Shareholders as a whole.

Save as disclosed above, Madam Zhu and Mr. Yeung did not hold any directorship in any other listed companies nor take up any position in any group companies of the Company in the past three years, nor have any relationship with any other director, supervisor, senior management, substantial shareholder or controlling shareholder of the Company. Furthermore, Madam Zhu and Mr. Yeung do not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong. Save as disclosed herein, there is no other information relating to the proposed appointments of Madam Zhu and Mr. Yeung that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules nor any matters which need to be brought to the attention of the Shareholders.

Upon the appointments of Madam Zhu and Mr. Yeung as Directors of the Company having been approved at the EGM, the Company will enter into service contracts with Madam Zhu and Mr. Yeung, respectively (with effect from the date of passing the relevant resolutions until the annual general meeting of the Company for the year 2019 to be held in year 2020). The Board, after obtaining the authorisation at the EGM, will determine the remuneration of Madam Zhu and Mr. Yeung with reference to their duties, responsibilities, experience as well as the current market conditions. Further details will be disclosed following the determination of their remuneration.

### **Recommendation**

The Board considers that the proposed election of Directors are in the interests of the Company and its Shareholders as a whole, and recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

### **PROPOSED ELECTION OF SUPERVISOR**

Reference is made to the announcement of the Company dated 20 August 2018 in relation to the proposed appointment of Supervisor of the Company. The Supervisory Committee has nominated Mr. Xu Shiguang (“**Mr. Xu**”) as a Supervisor and an ordinary resolution will be proposed to the Shareholders at the EGM for their consideration and approval.

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## LETTER FROM THE BOARD

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The biographical details of the proposed Supervisor is set out below:

**Mr. Xu Shiguang**, age 39, is currently the Director of general office of audit department of the Company. Mr. Xu received a bachelor degree in auditing and a master degree in accounting from the Nankai University and is studying the PhD course at the Chinese Academy of Fiscal Sciences. Mr. Xu served at various positions in internal control and auditing at China Telecommunications Corporation for many years. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants and a Certified Internal Auditor with extensive experience in internal control and auditing.

Save as disclosed above, Mr. Xu did not hold any directorship in any other listed companies nor take up any position in any group companies of the Company in the past three years, nor have any relationship with any other director, supervisor, senior management, substantial shareholder or controlling shareholder of the Company. Furthermore, Mr. Xu does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong. Save as disclosed herein, there is no other information relating to the proposed appointment of Mr. Xu that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules nor any matters which need to be brought to the attention of the Shareholders.

Upon the appointment of Mr. Xu as a Supervisor of the Company having been approved at the EGM, the Company will enter into a service contract with Mr. Xu (with effect from the date of passing the relevant resolution until the annual general meeting of the Company for the year 2019 to be held in year 2020). The Supervisory Committee, after obtaining the authorisation at the EGM, will determine the remuneration of Mr. Xu with reference to his duties, responsibilities, experience as well as the current market conditions. Further details will be disclosed following the determination of his remuneration.

### **Recommendation**

The Board considers that the proposed election of Supervisor is in the interests of the Company and its Shareholders as a whole, and recommends the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

### **EXTRAORDINARY GENERAL MEETING**

A notice convening the EGM is set out on pages 41 to 43 of this circular. The relevant form of proxy and attendance slip are enclosed. Shareholders who intend to attend the EGM are required to return the attendance slip to the Company on or before 5 October 2018.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant continuing connected transactions is required to abstain from voting on the relevant resolutions at the EGM. Accordingly, China Telecommunications Corporation and its associates are required to abstain from voting on the resolutions in respect of the renewal of the Continuing Connected Transactions at the EGM.

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## LETTER FROM THE BOARD

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Whether or not Shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy to the General Affairs Office of the Company for holders of domestic shares and to Computershare Hong Kong Investor Services Limited for holders of H Shares, as soon as practicable and in any event by not later than 24 hours before the time designated for holding the EGM. The General Affairs Office of the Company is located at 31 Jinrong Street, Xicheng District, Beijing 100033, PRC. Computershare Hong Kong Investor Services Limited is located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should they so wish.

### **ADDITIONAL INFORMATION**

Shareholders' attention is drawn to the notice of the EGM set out on pages 41 to 43 of this circular and the additional information set out in the appendix to this circular.

By Order of the Board,  
**China Telecom Corporation Limited**  
**Yang Jie**  
*Chairman and Chief Executive Officer*



**China Telecom Corporation Limited**

**中国电信股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

10 September 2018

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the “**Circular**”) dated 10 September 2018 issued by the Company to its shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 20 August 2018, the Board announced that the Company and China Telecommunications Corporation have entered into supplemental agreements on 20 August 2018 and renewed the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for a further term of three years from 1 January 2019 to 31 December 2021, subject to the requisite approval of the Independent Shareholders being obtained.

The Independent Board Committee was formed in order to make a recommendation to the Independent Shareholders as to, in its view, whether the terms of and the Renewed Annual Caps for each of the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and whether the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of and the Renewed Annual Caps for the Continuing Connected Transactions.

The terms of, and the reasons for entering into the Continuing Connected Transactions, and the Renewed Annual Caps thereto, are set out in the Letter from the Board on pages 5 to 17 of the Circular.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the Continuing Connected Transactions and the basis upon which their terms as well as the Renewed Annual Caps have been determined.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the renewal of the Continuing Connected Transactions, as set out in the letter from Somerley on pages 20 to 37 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, among other things, the advice of the Independent Financial Adviser, concurs with the views of the Independent Financial Adviser and considers that the terms of and the Renewed Annual Caps for each of the Continuing Connected Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group, are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the renewal of each of the Continuing Connected Transactions and the transactions contemplated thereunder, as detailed in the notice of the EGM set out at the end of the Circular.

Yours faithfully,  
**Tse Hau Yin, Aloysius**  
**Xu Erming**  
**Wang Hsuehming**  
*Independent Board Committee*

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## LETTER FROM SOMERLEY

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*The following is the full text of the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**

20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

10 September 2018

*To: the Independent Board Committee and the Independent Shareholders of  
China Telecom Corporation Limited*

Dear Sirs,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for the three years ending 31 December 2019, 2020 and 2021. Details of the Continuing Connected Transactions (including the Renewed Annual Caps) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 10 September 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As stated in the letter from the Board in the Circular, the Company and China Telecommunications Corporation have entered into supplemental agreements on 20 August 2018 and renewed the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement for a further term of three years from 1 January 2019 to 31 December 2021.

As at the Latest Practicable Date, China Telecommunications Corporation held approximately 70.89% of the issued share capital of the Company. Since China Telecommunications Corporation is the controlling shareholder of the Company, it is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM SOMERLEY

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As certain applicable percentage ratios (excluding the profits ratio) calculated by reference to the Renewed Annual Caps are more than 5%, the transactions contemplated under the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming and Madam Wang Hsuehming, has been formed to advise and make recommendation to the Independent Shareholders on the Continuing Connected Transactions (including the Renewed Annual Caps). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company and China Telecommunications Corporation or their respective core connected persons, close associates or associates and accordingly are considered to be eligible to give independent advice on the Continuing Connected Transactions (including the Renewed Annual Caps). Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company and China Telecommunications Corporation or their respective core connected persons, close associates or associates.

In formulating our opinion, we have reviewed, amongst other things, the announcement of the Company dated 20 August 2018 in relation to the Continuing Connected Transactions, the Agreements, the Renewed Annual Caps together with the relevant supporting documents, the annual reports of the Company for the eight years ended 31 December 2010 to 31 December 2017 (the “**Annual Reports**”), the 2017 annual results presentation of the Company, the interim results announcement of the Company for the six months ended 30 June 2018 (the “**2018 Interim Results Announcement**”), the 2018 interim results presentation of the Company and the information contained in the Circular. We have also discussed with and reviewed information provided by management of the Group (the “**Management**”) regarding the businesses of the Group and the prospects of conducting the Continuing Connected Transactions.

We have relied on the information and facts supplied, and the opinions expressed to us, by the Company, the Directors and management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received to be sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

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## LETTER FROM SOMERLEY

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation with regard to the Continuing Connected Transactions (including the Renewed Annual Caps), we have taken into account the principal factors and reasons set out below.

#### 1. Information on the Company and China Telecommunications Corporation

China Telecommunications Corporation is a state-owned enterprise established under the laws of the PRC on 17 May 2000. As at the Latest Practicable Date, China Telecommunications Corporation held approximately 70.89% of the issued share capital of the Company and is the controlling shareholder of the Company. Its principal business is investment holding of companies which are primarily involved in the provision of telecommunications services in the PRC, the provision of specialised telecommunication support services and other businesses.

The Company is a joint stock limited company incorporated in the PRC with limited liability on 10 September 2002, with its H shares and ADSs listed on the Stock Exchange and the New York Stock Exchange, respectively and whose principal business is the provision of fundamental telecommunications services including comprehensive wireline telecommunications services, mobile telecommunications services, value-added services such as Internet access services, information services and other related services.

Set out below is the summarised consolidated financial information of the Group for the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, as extracted from the relevant Annual Reports and the 2018 Interim Results Announcement and the 2018 interim results presentation of the Company, respectively:

	For the six months ended		For the year ended	
	30 June		31 December	
	2018	2017	2017	2016
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
		(restated)		(restated)
Operating revenues	193,029	184,315	366,229	352,534
Operating expenses	(173,872)	(166,308)	(339,009)	(325,314)
Operating profit	19,157	18,007	27,220	27,220
Profit before taxation	18,159	16,703	24,953	24,116
Profit attributable to equity				
holders of the Company	13,570	12,555	18,617	18,018
EBITDA <sup>1</sup>	55,858	52,444	102,171	95,162
Capital expenditure	32,947	41,119	88,712	96,817

<sup>1</sup> EBITDA was calculated based on operating revenues minus operating expenses plus depreciation and amortisation.



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## LETTER FROM SOMERLEY

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	<b>As at 30 June 2018</b>	<b>As at 31 December</b>	
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
			<i>(restated)</i>
Total assets	662,299	661,194	652,558
Total liabilities	326,754	334,497	336,210
Total equity attributable to equity holders of the Company	334,655	325,867	315,377

Operating revenues of the Group increased from RMB352,534 million for the year ended 31 December 2016 to RMB366,229 million for the year ended 31 December 2017, representing an increase of approximately 3.9%. As set out in the relevant Annual Reports, such revenue increment was attributed to the increase in revenue from Internet services by approximately 14.7%, which accounted for approximately 47.1% of operating revenues. However, the revenue from voice services was impacted by the substitution effect of mobile Internet services at the same time, leading to a decrease of approximately 12.1%. In addition, the decline of other operating revenues had also offset the increase in revenue from information and application services and telecommunications network resource services and lease of network equipment. On the other hand, operating expenses increased by approximately 4.2% from RMB325,314 million for the year ended 31 December 2016 to RMB339,009 million for the year ended 31 December 2017. In overall, profit attributable to equity holders of the Company slightly increased by approximately 3.3% from RMB18,018 million for the year ended 31 December 2016 to RMB18,617 million for the year ended 31 December 2017. Lastly, capital expenditure of the Group fell by approximately 8.4% to RMB88,712 million for the year ended 31 December 2017 as a result of the Group's continuous enhancement of 4G and fibre network coverage, which such relevant portion of capital expenditure had continued to decrease. In particular, capital expenditure in relation to 4G network and broadband and Internet reduced by approximately 13.0% for the year ended 31 December 2017 while the capital expenditure in information and application services and infrastructure and others increased by approximately 16.4% for the year ended 31 December 2017.

As noted from the 2018 Interim Results Announcement, the Group recorded an increase in operating revenues of approximately 4.7% from RMB184,315 million for the six months ended 30 June 2017 to RMB193,029 million for the six months ended 30 June 2018. The improvement in financial performance was supported by the net increases in total number of mobile subscribers, wireline broadband subscribers and e-Surfing HD subscribers. In addition, the Group's continual effort in revenue structure optimisation has led to higher revenues contributed by the emerging businesses, amounting to approximately 51.2% of the service revenues<sup>2</sup> for the six months ended 30 June 2018, representing an increase of 6.1 percentage points over the same period last year. Meanwhile, operating expenses increased by approximately 4.5% to RMB173,872 million for the six months ended 30 June 2018. In overall, profit attributable to equity holders of the Company increased by approximately 8.1% from RMB12,555 million for the six months ended 30 June 2017 to RMB13,570 million for the six months ended 30 June 2018. Lastly, capital expenditure fell by approximately 19.9% to approximately RMB32,947 million as a result of the Group's persistent and

<sup>2</sup> Service revenues were calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.

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## LETTER FROM SOMERLEY

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careful control and, in particular, we note from the 2018 interim results presentation of the Company that capital expenditure in 4G network and broadband and Internet had also continued to drop.

### **2. Background of the Continuing Connected Transactions**

The Company and China Telecommunications Corporation entered into the Agreements on 30 August 2006, and renewed the continuing connected transactions contemplated under the Agreements since then, and under the current terms, the Agreements will expire on 31 December 2018. On 20 August 2018, the Company and China Telecommunications Corporation entered into supplemental agreements and renewed the Agreements on the same terms (except for the pricing terms of the Engineering Framework Agreement) for a further term of three years from 1 January 2019 to 31 December 2021.

Pursuant to the Engineering Framework Agreement, China Telecommunications Corporation and/or its associates through bids provide the Group with services such as construction, design, equipment installation and testing and/or engineering project supervision services.

Pursuant to the Ancillary Telecommunications Services Framework Agreement, China Telecommunications Corporation and/or its associates provide the Group with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services.

### **3. Reasons for and benefits of the renewal of the Agreements**

The Group and China Telecommunications Corporation and/or its associates have established a long-term cooperative relationship through the mutual provision of ongoing telecommunications and other services through entering into of various agreements including, among others, the Agreements.

As mentioned in the letter from the Board in the Circular, the historical unique relationship and long-term cooperation between China Telecommunications Corporation and/or its associates and the Group has enabled China Telecommunications Corporation and/or its associates to gain a comprehensive and deep understanding of the Group's network features and general business needs. Compared to third parties, China Telecommunications Corporation and/or its associates can more aptly ensure that high quality service is provided at a competitive price, thus lowering service costs. The Group will receive high quality service and can effectively lower its operational expenses. Due to a long-standing and cooperative relationship in the past, China Telecommunications Corporation and/or its associates are more able to meet the needs of the Group and to provide responsive support services in a speedy and stable manner, thereby achieving effective business cooperation and synergies. China Telecommunications Corporation and/or its associates have, for a long time, set up specialised teams dedicated to serving the Group, and made proactive initiatives and technical preparations customised for the development of the Group, with a view to providing the Group with more systematic and efficient services.

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## LETTER FROM SOMERLEY

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Having considered (i) the long-established and historical cooperative business relationship between the Group and China Telecommunications Corporation and/or its associates enabling the Group to obtain the aforementioned services in a more stable, responsive and efficient way; and (ii) the nature of and the transactions contemplated under the Agreements, we concur with the view of the Directors that the renewal of the Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

#### 4. Principal terms of the Agreements

##### (I) *The Engineering Framework Agreement*

###### (a) *Parties*

- (i) The Company
- (ii) China Telecommunications Corporation

###### (b) *Terms*

The Company renewed the Engineering Framework Agreement on the same terms (except for the pricing terms) for a period of three years commencing on 1 January 2019 and expiring on 31 December 2021.

###### (c) *Scope*

The transactions contemplated under the Engineering Framework Agreement include construction, design, equipment installation and testing and/or engineering project supervision services (the “**Engineering Services**”).

###### (d) *Pricing*

Pursuant to the Engineering Framework Agreement as amended by the supplemental agreement dated 20 August 2018, the service charges payable shall be determined in accordance to the followings:

- (i) with reference to the market rates, which shall mean the rates at which the same or similar type of products or services are provided by Independent Third Parties in the ordinary course of business and on normal commercial terms. When determining whether the transaction price for any transaction under the Engineering Framework Agreement represents market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by Independent Third Parties in the ordinary course of business over the corresponding period for reference;

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## LETTER FROM SOMERLEY

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- (ii) according to applicable laws, the charges payable for the design or supervision of engineering projects with a value of over RMB1,000,000 (equivalent to approximately HK\$1,153,137) or engineering construction projects with a value of over RMB4,000,000 (equivalent to approximately HK\$4,612,546) shall be the tender award price, which is determined in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC” or the final confirmed price in the relevant tender process. The Group shall solicit at least three tenderers for the tender process. In the circumstances where there are amended rules or regulations in respect of tender scope and scale of engineering construction projects promulgated by PRC laws and regulations, both parties agree to apply such amended rules and regulations and no amendment to the supplemental agreement is required.

The Group does not accord any priority to China Telecommunications Corporation and/or its associates to provide such services, and the tender may be awarded to an Independent Third Party. However, if the terms of an offer from China Telecommunications Corporation and/or its associates are at least as favourable as those offered by other tenderers, the Group may award the tender to China Telecommunications Corporation and/or its associates.

We have discussed with the Management and note that the Company has engaged Independent Third Parties to provide the Engineering Services during the current term of Engineering Framework Agreement from 1 January 2016 to the date of the circular and, thereby, has been able to obtain information on the rates charged by Independent Third Parties for similar and comparable transactions. We have reviewed a number of Engineering Services contracts entered into between the Group and the Independent Third Parties and note that the Company had engaged Independent Third Parties to provide the Engineering Services as mentioned above.

We also understood from the Management that the information on the market rates of most of the Engineering Services were obtained through tender processes which were in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC”, and included, among other things, (i) publication of public tendering invitation by the Company; (ii) participation of no less than three bidders in relation to the above public tendering; (iii) result assessments based on a scoring mechanism applied to each bidder; (iv) the entering into of contract between the Group and the selected bidder; and (v) the adherence to the Group’s internal guideline governing the Group’s public bidding policy and procedures (the “**Bidding Procedures**”). We have reviewed a number of Engineering Services contracts entered into between the Group and China Telecommunications Corporation and/or its associates and Independent Third Parties during the period from 1 January 2016 to the date of the circular and the relevant documents and we note that the tendering processes of these transactions were in line with the Company’s pricing policy and the Bidding Procedures

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## LETTER FROM SOMERLEY

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as set forth above. Moreover, we note from the Management that the Company had rarely encountered situations where fewer than three tenderers were solicited, in light of the considerable number of market participants providing the relevant services. In addition, we have reviewed the Company's 2017 internal notice governing the continuing connected transactions between the Company and China Telecommunications Corporation and/or its associates and we note that internal control procedures including, but not limited to, internal guidance on pricing mechanism and operational procedures regarding these continuing connected transactions were in place.

In the event that fewer than three tenderers are solicited, the Group would adopt corresponding measures strictly in accordance with the nation's relevant laws and regulatory requirements and internal control procedures as appropriate in light of the circumstances, and to conduct a further tender process after analysing the reasons for the unsuccessful tender in accordance with laws and if fewer than three tenderers are solicited even after the further tender, after obtaining approval pursuant to the Company's internal control management requirements, to adopt open evaluation of two qualified tenderers or to end the tender process, or to adopt other methodologies to conduct relevant procurements. The Group has adopted internal management measures on tender processes which are commensurate with the "Bidding Law of the PRC" and the "Regulations on the Implementation of the Bidding Law of the PRC", and has adopted the relevant management measures including the "China Telecom Group Management Measures on Procurement" and the "China Telecom Group Management Measures on Procurement, Invitation of Tenders and Placing of Tenders". Based on our discussions with the Management, it was rare that fewer than three tenderers were solicited. The procurement management department and the internal audit department of the Company are responsible for monitoring whether such internal measures have been adhered to in the tender processes. In light of the above, we are of the view that the Group has appropriate internal control procedures in place to determine the estimated market prices for the Engineering Services and safeguard the interests of the Company and its Shareholders.

Furthermore, we have conducted a review of the procurement procedures and pricing policies for continuing connected transactions of certain other relevant Hong Kong listed companies and we are of the view that the pricing policies for the Engineering Services adopted by the Company are in line with, if not more stringent, than the prevailing market practices.

Based on our work above and our review of the Engineering Framework Agreement, we are of the view that the pricing and other terms to the Group set out in the Engineering Framework Agreement, in overall, are on normal commercial terms.

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## LETTER FROM SOMERLEY

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### (II) *The Ancillary Telecommunications Services Framework Agreement*

#### (a) *Parties*

- (i) The Company
- (ii) China Telecommunications Corporation

#### (b) *Terms*

The Company renewed the Ancillary Telecommunications Services Framework Agreement on the same terms for a period of three years commencing on 1 January 2019 and expiring on 31 December 2021.

#### (c) *Scope*

The transactions contemplated under the Ancillary Telecommunications Services Framework Agreement are certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services (the “**Ancillary Telecommunications Services**”).

#### (d) *Pricing*

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the service charges payable are calculated on the following basis:

- (i) market prices, which shall mean the prices at which the same or similar type of products or services are provided by Independent Third Parties in the ordinary course of business and on normal commercial terms. When determining whether the transaction price for any transaction under the Ancillary Telecommunications Services Framework Agreement represents market prices, to the extent practicable, management of the Company shall take into account the prices of at least two similar and comparable transactions entered into with or carried out by Independent Third Parties in the ordinary course of business over the corresponding period for reference;
- (ii) where there is no or it is not possible to determine the market prices, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. For this purpose, “reasonable profit margin” is to be fairly determined by negotiations between the parties in accordance with the internal policies of the Group. When determining the “reasonable profit margin” for any transaction under the Ancillary Telecommunications Services Framework Agreement, to the extent practicable, management of the Company shall take into account the profit margin of at least two similar and comparable transactions entered into with Independent Third Parties in the corresponding period or the relevant industry profit margin for reference.

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## LETTER FROM SOMERLEY

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We have discussed with the Management and note that the Company had engaged Independent Third Parties to provide the Ancillary Telecommunications Services during the current term of the Ancillary Telecommunications Services Framework from 1 January 2016 to the date of the Circular and, thereby, has been able to obtain information on the rates charged by Independent Third Parties for similar and comparable services. We have reviewed a number of Ancillary Telecommunications Services contracts entered into between the Group and the Independent Third Parties and note that the Company had engaged Independent Third Parties to provide the Ancillary Telecommunications Services as mentioned above.

We also understood from the Management that in determining the market prices by identifying at least two similar and comparable transactions, depending on the potential transaction values, the Company would either (i) initiate a tender process in accordance with the internal management measures on procurement and tender processes which are commensurate with “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC”; or (ii) through open procurement of not less than two prices of similar and comparable transactions by Independent Third Parties for comparative selection, price enquiries or competitive negotiation. We have reviewed a number of Ancillary Telecommunications Services contracts entered into between the Group and China Telecommunications Corporation and/or its associates or the Independent Third Parties and note that the Company has followed the pricing policy as set forth above.

In conducting open procurement, and where it is not practicable to use the above methods to ascertain the market rates, the Company would consider for reference (i) the prices determined by public tender processes for similar recent transactions in other comparable geographical areas; (ii) the prices determined by public tender processes for past similar transactions in the same geographical areas; and (iii) the prices determined by public tender processes for both recent and past similar transactions of other companies in the same geographical areas, in order to ensure that the market rates are used for the continuing connected transactions. We have discussed with the Management and reviewed the relevant documents of a procurement transaction determined on the above basis and note that the transaction has followed the pricing policy as set out above.

Where it is not practicable to consider the profit margins of two similar and comparable transactions with Independent Third Parties, and a reasonable profit margin has to be determined, the Company would normally consider for reference the recent profit margins of enterprises engaging in providing similar services in other industries. We note from the Management that during the current term of the Ancillary Telecommunications Services Framework Agreement from 1 January 2016 to the date of this circular, in light of the considerable number of market participants providing the relevant services, the Company had rarely encountered situations where it had to

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## LETTER FROM SOMERLEY

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determine the “reasonable profit margin” in the abovementioned ways, and did not encounter significant difficulty when practically implementing the methodologies for determining market rates.

We have reviewed the Company’s 2017 internal notice governing the continuing connected transactions between the Company and China Telecommunications Corporation and/or its associates and we note that internal control procedures including, but not limited to, internal guidance on pricing mechanism and operational procedures regarding these continuing connected transactions were in place. Moreover, we have reviewed a number of Ancillary Telecommunications Services contracts entered into between the Group and China Telecommunications Corporation and/or its associates during the period from 1 January 2016 to the date of the circular and the relevant documents and we note that the pricing processes of these transactions were in line with the Company’s pricing policy as set forth above.

In light of the above, we are of the view that the Group has appropriate internal control procedures in place to determine the estimated market prices for the Ancillary Telecommunications Services and safeguard the interests of the Company and its Shareholders.

Furthermore, we have conducted a review of the procurement procedures and pricing policies for continuing connected transactions of certain other relevant Hong Kong listed companies and we are of the view that the pricing policies for the Ancillary Telecommunications Services adopted by the Company are in line with, if not more stringent, than the prevailing market practices.

Based on our work above and our review of the Ancillary Telecommunications Services Framework Agreement, we are of the view that the pricing and other terms to the Group set out in the Ancillary Telecommunications Services Framework Agreement, in overall, are on normal commercial terms.



## LETTER FROM SOMERLEY

### 5. The Renewed Annual Caps

As stated in the letter from the Board in the Circular, the historical amounts for the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2018, the Annual Caps for the year ending 31 December 2018 and the Renewed Annual Caps for the three years ending 31 December 2019, 2020 and 2021, for the transactions contemplated under each of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement are set out below:

Agreements	Audited historical amounts for the year ended 31 December 2016	Audited historical amounts for the year ended 31 December 2017	Unaudited historical amounts for the period from 1 January to 30 June 2018	Annual Caps for the year ending 31 December 2018	Renewed Annual Caps for the year ending 31 December 2019	Renewed Annual Caps for the year ending 31 December 2020	Renewed Annual Caps for the year ending 31 December 2021
Engineering Framework Agreement	RMB18,936 million (equivalent to HKD21,836 million)	RMB18,672 million (equivalent to HKD21,531 million)	RMB7,544 million (equivalent to HKD8,699 million)	RMB19,500 million (equivalent to HKD22,486 million)	RMB23,000 million (equivalent to HKD26,522 million)	RMB30,000 million (equivalent to HKD34,594 million)	RMB32,000 million (equivalent to HKD36,900 million)
Ancillary Telecommunications Services Framework Agreement	RMB13,938 million (equivalent to HKD16,072 million)	RMB16,072 million (equivalent to HKD18,533 million)	RMB7,461 million (equivalent to HKD8,604 million)	RMB17,000 million (equivalent to HKD19,603 million)	RMB22,000 million (equivalent to HKD25,369 million)	RMB24,000 million (equivalent to HKD27,675 million)	RMB26,500 million (equivalent to HKD30,558 million)

#### (I) *The Engineering Framework Agreement*

The historical amounts for the two years ended 31 December 2016 and 2017 were RMB18,936 million and RMB18,672 million for the Engineering Framework Agreement respectively, representing utilisation rates of approximately 94.7% and 95.8% of the respective Annual Caps. The Renewed Annual Caps in relation to the Engineering Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 represent increases of approximately 17.9%, 30.4% and 6.7% respectively when compared to that of prior year.

As set out in the letter from the Board of the Circular, the increase in the Annual Caps for the three years ending 31 December 2019, 2020 and 2021 in relation to the Engineering Framework Agreement is mainly attributable to the impact of the scale and structure of capital expenditure of the Company. As the coming two to three years will be an important stage of network intelligentisation reforms and upgrade as well as 5G development, the Company is required to maintain requisite capital expenditure. In addition, as a result of the continuous improvement of the capability of offering engineering design and installation services, China Telecommunications Corporation and/or its associates will have more competitive advantages than third-party vendors which will enable them to fulfill the needs for the Company's future developments. Therefore, it is anticipated that the Company's demand for engineering services

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## LETTER FROM SOMERLEY

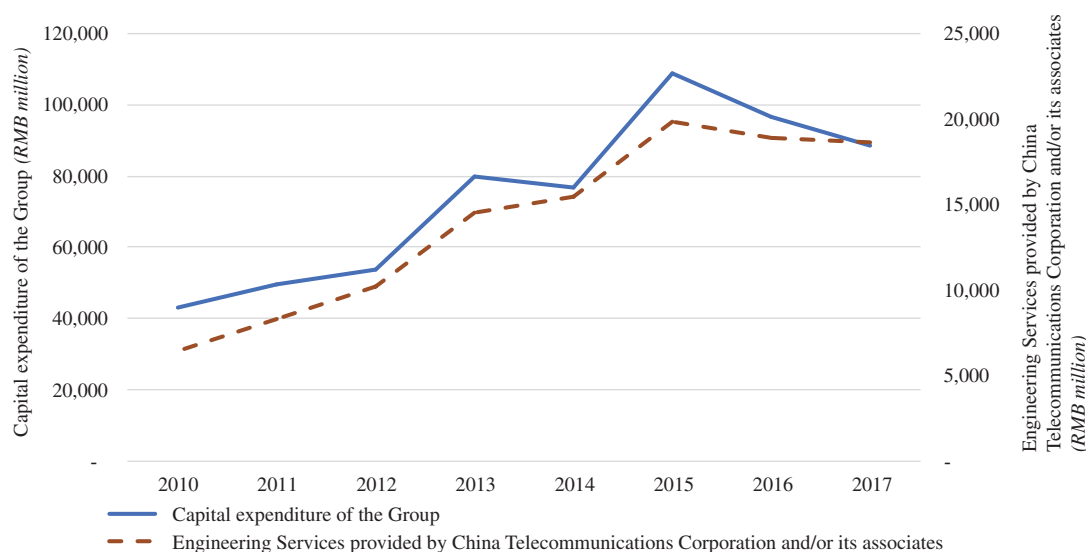
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will increase. Meanwhile, the year 2020 is expected to be the development phase of 5G commercial use after completion of relevant preparation work. Accordingly, the 2020 Annual Cap will have a relatively substantial increase as compared to the 2019 Annual Cap.

In order to assess the fairness and reasonableness of the Renewed Annual Caps for the Engineering Framework Agreement, we have considered the following factors:

- (i) *Expected potential increase in capital expenditure of the Group primarily due to network intelligentisation reforms and upgrade and development of 5G network*

As noted above, the increase in the Renewed Annual Caps as compared to that of the previous years is mainly attributable to the impact of the scale and structure of capital expenditure of the Company. In light of this, we have looked into the correlation between the scale of the Group's capital expenditure and the historical amounts of the Engineering Services provided by China Telecommunications Corporation and/or its associates from 2010 to 2017 as illustrated in the chart below.



As noted from the above chart, the historical amounts of the Engineering Services provided by China Telecommunications Corporation and/or its associates were highly correlated to the capital expenditure of the Group. To highlight, the amount of the Engineering Services provided by China Telecommunications Corporation and/or its associates for the year ended 31 December 2015 increased significantly due to the development of 4G network and fibre broadband network. We note from our discussions with the Management that following the continuous enhancement of 4G and fibre network coverage, the related proportion of capital expenditure will continuously decline. Nevertheless, as set out in the 2017 annual results presentation of the Company, future capital expenditure was expected to continuously incur on, among other things, improvement of 4G network for large data traffic service, Voice over Long-Term Evolution commercialisation and enhancement of network edge by expansion of fibre broadband into new urban and rural areas to improve network coverage.

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## LETTER FROM SOMERLEY

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As for the Renewed Annual Caps in relation to the Engineering Framework Agreement, we have discussed with the Management whom advised that the potential increase in capital expenditure in the coming three years is anticipated for, and in particular the significant increase in the Renewed Annual Cap for the Engineering Framework Agreement for 2020, (i) network intelligentisation evolution, as outlined in CTNet2025 Network Structure White Paper published by the Company in July 2016, including the promotion of network reconstitution, introduction of technologies, expedition of network equipment upgrade for building a simplified network featuring efficient centralisation and openness; and (ii) development of 5G network and commencement of large-scale commercial use subsequent to the commercial trial in 2019, which lead to the potential increase in capital expenditure starting from 2020. Due to the network intelligentisation reforms and upgrade and the entering into of 5G era, it is expected that both the capital expenditure of the Group and the transactions under the Engineering Framework Agreement may increase in the upcoming three years.

(ii) *High historical utilisation rates and buffers for unforeseen market conditions and inflations*

During our discussions with the Management and we further understand that they have made reference to the historical utilisation rates when determining the Renewed Annual Caps for the Engineering Framework Agreement. Since 2010, the utilisation rates of the historical Annual Caps in relation to the Engineering Framework Agreement have been high and were no less than 90%. In particular, the utilisation rates were approximately 95% for each of the two years ended 31 December 2016 and 2017. In addition, high utilisation rates also reduced the Group's flexibility to respond to any unforeseen events. Hence, a degree of buffer was also built in when determining the Renewed Annual Caps in relation to the Engineering Framework Agreement, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the inflations in the coming three years, which had once been as high as approximately 5.9% per annum during the period from 2008 to 2017 according to the consumer price index of China published by National Bureau of Statistics of China.

Having considered the basis on which the Renewed Annual Caps in relation to the Engineering Framework Agreement were determined as described above, we are of the view that the Renewed Annual Caps in relation to the Engineering Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

### **(II) *The Ancillary Telecommunications Services Framework Agreement***

The historical amounts for the two years ended 31 December 2016 and 2017 were RMB13,938 million and RMB16,072 million for the Ancillary Telecommunications Services Framework Agreement respectively, representing utilisation rates of approximately 87.1% and 97.4% of the respective Annual Caps. The Renewed Annual Caps for the Ancillary

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## LETTER FROM SOMERLEY

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Telecommunications Services Framework Agreement for the three years ending 31 December 2019, 2020 and 2021 represent increases of approximately 29.4%, 9.1% and 10.4% respectively when compared to that of prior year.

As set out in the letter from the Board in the Circular, the increase in the Annual Caps for the three years ending 31 December 2019, 2020 and 2021 in relation to the Ancillary Telecommunications Services Framework Agreement is mainly attributable to the gradual expansion of subscribers scale, business volume and network scale of the Company year on year. It is anticipated that the demand for the services for corporate development, customers retention, outsourced network repairs, installation and relocation of equipment will continue to increase. In addition, as a result of the continuous improvement of the capability of offering ancillary telecommunications services, China Telecommunications Corporation and/or its associates will have more competitive advantages than the third-party vendors which will enable them to fulfill the needs for the Company's future developments. Therefore, it is anticipated that the Company's demand for ancillary telecommunications services will increase. The relatively substantial increase in the 2019 Annual Cap as compared to the 2018 Annual Cap is mainly due to (a) the trend of increasing number of subscribers of various services of the Company including mobile services, e-Surfing HD and Internet of Things (IoT) as disclosed in the 2018 Interim Results Announcement, and the corresponding increase in demand for the relevant repairs, maintenance and customer services; and (b) the management having considered the historical utilisation rates of the Annual Caps in determining the Renewed Annual Caps. In light of the relatively high utilisation rates of the Annual Caps for the past years under the Ancillary Telecommunications Services Framework Agreement, the management has allowed a reasonable buffer for the Renewed Annual Caps in order to enable the Company to react to unforeseen circumstances in a flexible manner.

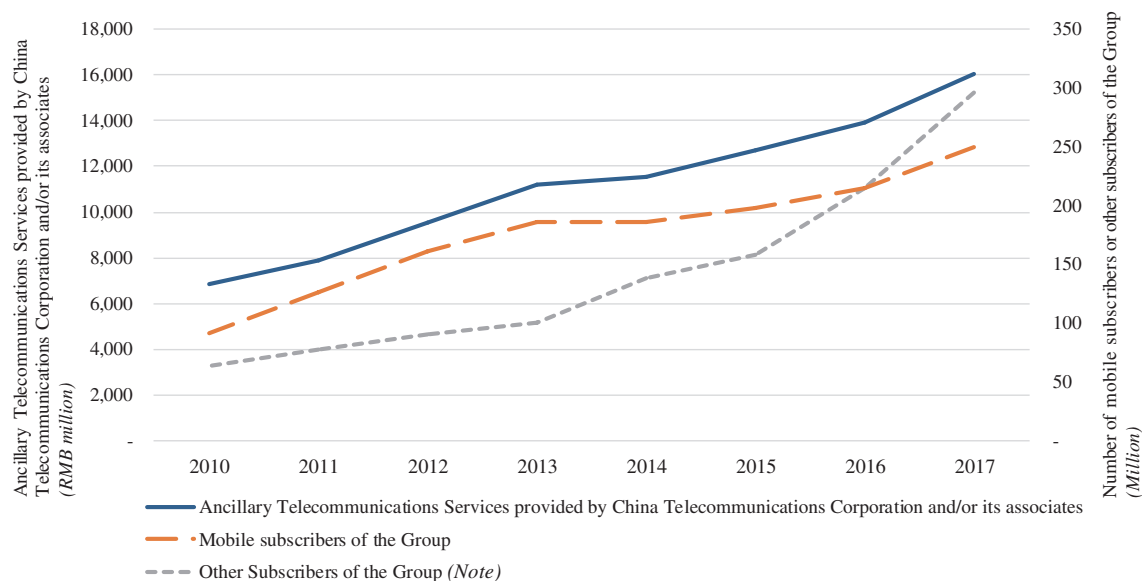
In order to assess the fairness and reasonableness of the Renewed Annual Caps for the Ancillary Telecommunications Services Framework Agreement, we have considered the following factors:

- (i) *Expansion of network scale driven by the growth in the number of subscribers of the Group*

We understood from the Management that the demand for the Ancillary Telecommunications Services have been largely driven by, among other things, the total numbers of mobile subscribers (including any 3G or 4G users) and the Other Subscribers (as defined below), since high data traffic increases network load and it will in-turn lead to higher demand for maintenance services, outsourced network repairs, installation and relocation of equipment, which are of high importance to ensure a stable provision of services to the Group's service subscribers.

## LETTER FROM SOMERLEY

In light of the above, we have reviewed the relationship between the numbers of mobile subscribers and the Other Subscribers of the Group and the historical amounts of the Ancillary Telecommunications Services provided by China Telecommunications Corporation and/or its associates from 2010 to 2017 as illustrated in the chart below.



*Note:* Other subscribers (the “**Other Subscribers**”) comprise wireline broadband subscribers, e-Surfing HD subscribers, Internet of things connected devices and “BestPay” average monthly active users. Internet of Things connected devices and “BestPay” were introduced in 2015 and e-Surfing HD was introduced in 2014.

As noted from the above chart, the numbers of mobile subscribers and the Other Subscribers of the Group and the amounts of the Ancillary Telecommunications Services provided by China Telecommunications Corporation and/or its associates were highly correlated. We also note from the Annual Reports that the total number of mobile subscribers of the Group increased from approximately 90.5 million in 2010 to approximately 250.0 million in 2017, equivalent to a compound annual growth rate (“**CAGR**”) of approximately 15.6%. Similarly, the Other Subscribers recorded a CAGR of approximately 24.6% in the same period, increasing from approximately 63.5 million in 2010 to approximately 296.6 million in 2017. Furthermore, we note from the 2018 interim results presentation of the Company that the scale of both mobile subscribers and Other Subscribers of the Group had continued to grow, amounting to approximately 281.6 million and 350.8 million users respectively as at 30 June 2018, representing increases of approximately 12.7% and 18.3% from that as of 31 December 2017 respectively. As advised by the Management, the proposed increases in the Renewed Annual Caps in relation to Ancillary Telecommunications Services Framework Agreement, apart from high historical utilisation rates and buffer for business growth to be discussed separately below, were mainly attributable to the anticipated expansion of the Group’s business volume and its network scale, both of which will be driven by the gradual expansion of subscribers scale, which is also expected to increase the needs for the Ancillary Telecommunications Services. Overall, the increments of the Renewed

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## LETTER FROM SOMERLEY

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Annual Caps in relation to the Ancillary Telecommunications Services Framework Agreement are expected to be generally in line with the anticipated increases in the Group's subscribers scale.

(ii) *High historical utilisation rates and buffers for business growth and inflations*

We have discussed with the Management and we understand that they have also made reference to the historical utilisation rates when determining the Renewed Annual Caps in relation to the Ancillary Telecommunications Services Framework Agreement. Since 2010, the utilisation rates of the historical Annual Caps in relation to the Ancillary Telecommunications Services Framework had been historically approximately 90% or less. However, the utilisation rate reached approximately 97.4% for the year ended 31 December 2017 and the Management explained that such high utilisation rate was primarily due to the rapid growth in the total number of mobile subscribers and the Other Subscribers of the Group. As discussed in the sub-section headed "(i) Expansion of network scale driven by the growth in the number of subscribers of the Group", expansion of the Group's business volume and network scale are anticipated to be driven by the gradual expansion of subscribers scale in the coming three years. In order to enable the Company to react to unforeseen circumstances in a flexible manner and given the very high utilisation rate of the Annual Cap for the most recent financial year (i.e. the year ended 31 December 2017) of approximately 97.4%, it is considered reasonable to have a higher increase in the Renewed Annual Cap as an additional buffer for the year ending 31 December 2019. Also, having considered the above, the Management built in certain degree of buffer to the Renewed Annual Caps for the Ancillary Telecommunications Services Framework Agreement, which (i) allows the Group to be flexible in case of unforeseen events; and (ii) caters for the inflations in the coming three years, which had once been as high as approximately 5.9% per annum during the period from 2007 to 2018 according to the consumer price index of China published by National Bureau of Statistics of China.

Having considered the basis on which the Renewed Annual Caps for the Ancillary Telecommunications Services Framework Agreement were determined as described above, we are of the view that the Renewed Annual Caps for the Ancillary Telecommunications Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

### **OPINION AND RECOMMENDATION**

Having taken into account the above principal factors and reasons, we consider that (i) the entering into the Continuing Connected Transactions is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Continuing Connected Transactions (including the Renewed Annual Caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM SOMERLEY

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Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM in relation to the Continuing Connected Transactions (including the Renewed Annual Caps).

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Danny Cheng**  
*Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND ASSETS

- (i) Mr. Yang Jie (the chairman and chief executive officer), a Director of the Company, also serves as the chairman of China Telecommunications Corporation.
- (ii) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group, apart from their service contracts.
- (iii) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 3. DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, none of the Directors or Supervisors had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning in Part XV of the SFO) which are (1) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO), or (2) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (3) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, save that Mr. Yang Jie, Mr. Ke Ruiwen, Mr. Gao Tongqing, Mr. Chen Zhongyue, Madam Zhu Min, Mr. Sui Yixun, Mr. Zhang Jianbin, Mr. Yang Jianqing and Mr. Xu Shiguang were directors/employees of China Telecommunications Corporation, none of the Directors or Supervisors or proposed Directors or proposed Supervisor was a director or employee of a company which has any interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.



#### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### 5. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and Supervisors or his/her respective associate(s) was interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

#### 6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### 7. QUALIFICATIONS AND CONSENT

The following are the qualifications of the expert who has been named in this circular or given its opinions or advice contained or referred to in this circular:

<b>Name</b>	<b>Qualifications</b>
Somerley	Licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

Somerley issued a letter dated 10 September 2018, for the purpose of incorporation in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, statements and/or references to its name in the form and context in which it appears. Such letter and statements from and/or references of Somerley are given as at the date of this circular for incorporation herein.

As at the Latest Practicable Date, Somerley was not beneficially interested in the share capital of any member of the Group or did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

**8. MATERIAL LITIGATION**

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Group.

**9. MATERIAL CONTRACTS**

No material contract (not being contracts entered into in the ordinary course of business carried out by the Group) has been entered into by any member of the Group within the two years immediately preceding the date of this circular.

**10. MISCELLANEOUS**

- (i) The Company Secretary of the Company is Ms. Wong Yuk Har (CPA, CPA (Aust), FCIS, FCS).
- (ii) The registered office and head office of the Company is 31 Jinrong Street, Xicheng District, Beijing 100033, PRC.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 38/F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular until 26 October 2018:

- (i) the written consent letter referred to in paragraph 7 of this Appendix to this circular;
- (ii) the Engineering Framework Agreement;
- (iii) the Ancillary Telecommunications Services Framework Agreement;
- (iv) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders;
- (v) the letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders; and
- (vi) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### China Telecom Corporation Limited

### 中国电信股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 728)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of China Telecom Corporation Limited (the “Company”) will be held at 9:00 a.m. on 26 October 2018 at 31 Jinrong Street, Xicheng District, Beijing, PRC for the purpose of considering and, if thought fit, passing the following resolutions:

### ORDINARY RESOLUTIONS

1. **THAT** the continuing connected transactions contemplated under the Engineering Framework Agreement, a copy of which has been initialled by the Chairman and for the purpose of identification marked “A”, together with the Renewed Annual Caps be and are hereby generally and unconditionally approved and any Director of the Company is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion as may be necessary, desirable or expedient to implement and/or give effect to the terms of such continuing connected transactions.
2. **THAT** the continuing connected transactions contemplated under the Ancillary Telecommunications Services Framework Agreement, a copy of which has been initialled by the Chairman and for the purpose of identification marked “B”, together with the Renewed Annual Caps be and are hereby generally and unconditionally approved and any Director of the Company is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion as may be necessary, desirable or expedient to implement and/or give effect to the terms of such continuing connected transactions.
3. **THAT** the election of Madam Zhu Min as a Director of the Company be and is hereby considered and approved, and shall take effect from the date of passing this resolution until the annual general meeting of the Company for the year 2019 to be held in year 2020; **THAT** any Director of the Company be and is hereby authorised to sign on behalf of the Company the Director's service contract with Madam Zhu Min; and **THAT** the Board be and is hereby authorised to determine her remuneration.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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4. **THAT** the election of Mr. Yeung Chi Wai, Jason as an Independent Director of the Company be and is hereby considered and approved, and shall take effect from the date of passing this resolution until the annual general meeting of the Company for the year 2019 to be held in year 2020; **THAT** any Director of the Company be and is hereby authorised to sign on behalf of the Company the Director's service contract with Mr. Yeung Chi Wai, Jason; and **THAT** the Board be and is hereby authorised to determine his remuneration.
5. **THAT** the election of Mr. Xu Shiguang as a Supervisor of the Company be and is hereby considered and approved, and shall take effect from the date of passing this resolution until the annual general meeting of the Company for the year 2019 to be held in year 2020; **THAT** any Director of the Company be and is hereby authorised to sign on behalf of the Company the Supervisor's service contract with Mr. Xu Shiguang; and **THAT** the Supervisory Committee be and is hereby authorised to determine his remuneration.

By Order of the Board  
**China Telecom Corporation Limited**  
**Wong Yuk Har**  
*Company Secretary*

Beijing, PRC, 10 September 2018

*Notes:*

1. Details of the resolutions stated above are set out in the circular dated 10 September 2018 of the Company.
2. The H Share Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the extraordinary general meeting, from 26 September 2018 to 26 October 2018 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the extraordinary general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 September 2018. Holders of H Share who are registered with Computershare Hong Kong Investor Services Limited on 26 October 2018 are entitled to attend the extraordinary general meeting.
3. Each shareholder entitled to attend and vote at the extraordinary general meeting may appoint one or more proxies to attend and vote on his behalf at the extraordinary general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should read through the circular dated 10 September 2018.
4. To be valid, the form of proxy together with the power of attorney or other authorisation document (if any) signed by the authorised person or notarially certified power of attorney must be delivered to the General Affairs Office of the Company (for holders of domestic shares) and to the Computershare Hong Kong Investor Services Limited (for holders of H shares) not less than 24 hours before the designated time for the holding of the extraordinary general meeting. The General Affairs Office of the Company is located at 31 Jinrong Street, Xicheng District, Beijing 100033, PRC. (Telephone: (8610) 5850 1800). Computershare Hong Kong Investor Services Limited is located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the extraordinary general meeting if he so wishes.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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5. Shareholders intending to attend the extraordinary general meeting shall return the attendance slip via hand delivery, mail or fax to the General Affairs Office of the Company (for holders of domestic shares) and to the Computershare Hong Kong Investor Services Limited (for holders of H shares) on or before 5 October 2018.
6. Shareholders attending the extraordinary general meeting in person or by proxy shall present their proof of identity. If the attending shareholder is a corporation, its legal representative or person authorised by the board of directors or other decision making authority shall present a copy of the relevant resolution of the board of directors or other decision making authority in order to attend the extraordinary general meeting.
7. All resolutions proposed at the extraordinary general meeting will be voted by poll.
8. The extraordinary general meeting is expected to last for half a day and shareholders (in person or by proxy) attending the extraordinary general meeting shall be responsible for their own transport and accommodation expenses.

*As at the date of this announcement, the Board of Directors of the Company consists of Mr. Yang Jie (as the chairman and chief executive officer); Mr. Ke Ruiwen, Mr. Gao Tongqing and Mr. Chen Zhongyue (all as the executive vice presidents); Mr. Chen Shengguang (as the non-executive director); Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming and Madam Wang Hsuehming (all as the independent non-executive directors).*